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UNCLAS SECTION 01 OF 04 WINDHOEK 000246

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TAGS: [PGOV](#) [ECON](#) [EAGR](#) [WA](#)  
SUBJECT: NAMIBIA AND THE GLOBAL ECONOMIC CRISIS

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Summary  
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¶1. (SBU) While Namibia maintained positive economic growth in 2008, the consensus for 2009 is that the economy will shrink between 0.6 and 2.0 percent. Two of Namibia's primary sectors, mining and fishing, shrank considerably in 2008 and all indications are that this slump is continuing in 2009. Manufacturing, which is closely tied to mining and fishing, has also declined. Tourism, a sector that has seen rapid growth in recent years, is poised to contract between 10 to 20 percent. Construction remains a bright spot. Government infrastructure and a few large private construction projects are fueling growth in this sector. The financial (banking) sector remains profitable due to high interest rate spreads and high banking fees, but there is public pressure to regulate those fees. End Summary.

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Provisional Results Don't Look Good  
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¶2. (SBU) The Central Bureau of Statistics (CBS), the government's official statistical body, released its preliminary economic results for calendar year 2008. According to the CBS, Gross Domestic Product (GDP) grew 2.9 percent in 2008 (using 2004 as a base year). However, the Namibian economy contracted by 3.7 percent during the second quarter and 4.6 percent the third quarter of 2008. As table one below illustrates, since 2006, Namibia has experienced five separate quarters of negative growth. Although there were two consecutive quarters of negative growth starting in late 2006, (Q4 2006 and Q1 2007), the economy rebounded quite robustly in 2007. The two consecutive quarters of negative growth (the standard definition for a recession) in 2008 present a more worrying trend. In the fourth quarter of 2008, the economy rebounded slightly, growing at an anemic 0.64 percent, but preliminary data for the first quarter of 2009 shows a sharp decline in the overall economy.

Table 1: Quarterly GDP Data 2006-2008

Year Quarter	N\$ Millions	% Change Over Previous Quarter
2006 Q1	11,278	0.40%
2006 Q2	11,698	3.72%
2006 Q3	11,972	2.34%
2006 Q4	11,895	-0.64%
2007 Q1	11,542	-2.97%
2007 Q2	11,821	2.42%

2007 Q3	13,224	11.87%
2007 Q4	12,806	-3.16%
2008 Q1	13,360	4.33%
2008 Q2	12,872	-3.65%
2008 Q3	12,275	-4.64%
2008 Q4	12,353	0.64%

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Note: Figures use 2004 as a base year.  
Source: Central Bureau of Statistics

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Primary Sectors Down, Secondary Up

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¶3. (U) According to the CBS' preliminary results, of Namibia's three primary sectors ) agriculture, fishing and mining ) only agriculture saw positive growth in 2008. Of Namibia's secondary and tertiary industries, only manufacturing recorded an overall loss for the year. The manufacturing sector is closely tied to the primary sectors of agriculture (meat processing), fishing (fish processing), and mining (diamond cutting and polishing). The only large-scale manufacturing not tied to the primary sectors is the beverage and brewing (beer) sector.

Table 2: 2008 Growth in Percentage Terms  
by Various Sectors As Compared to 2007

	Q1	Q2	Q3	Q4	Total
Agriculture	-1.0	7.1	2.0	2.7	3.0
Fishing	17.6	-5.9	-17.1	-56.4	-12.4
Mining	-21.3	6.1	20.7	-3.9	-1.8
Manufacturing	144.0	41.7	-52.9	-32.1	-2.6
Elect. & H2O	-2.7	25.1	-5.9	8.6	5.9

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Construction	54.8	-7.1	0.6	16.8	15.6
Whole/Retail	7.0	3.8	3.1	-1.5	2.8
Hotels/Dining	23.5	33.8	-24.9	-22.9	1.0
Trans./Commun.	5.0	1.6	5.7	11.3	5.9
Finance	16.8	14.1	5.3	5.2	10.1
GDP Total	15.6	8.8	-7.1	-3.4	2.9

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Source: Central Bureau of Statistics

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What does 2009 Look Like?

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¶4. (U) Most economists forecast negative growth (contraction) of between one and two percent in 2009. Until recently, the Bank of Namibia (BoN) maintained one of the few optimistic forecasts, but in June it revised its prediction downward to a negative 0.6 percent. According to the CBS the economy contracted by 5.8 percent (seasonally adjusted) in the first quarter of 2009.

Table 3: Percentage of Contraction in  
The Hardest Hit Sectors Q1 2009

Mining	-65.6
Fishing	-33.5
Manufacturing	-39.5
Hotels/Dining	-17.1

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Source: Central Bureau of Statistics

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Mining

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¶5. (U) Mining has been a mainstay of Namibia's export earnings. Mining and mining-related manufacturing generally contribute approximately 30 percent or more of GDP. Diamonds

and uranium are the dominant mining products. Diamonds normally have contributed over 40 percent of Namibia's export earnings, seven percent of government revenue, and 10 percent of GDP. Due to global economic conditions, however, diamond demand has dropped dramatically. The CBS estimates that the diamond sub-sector (diamonds and value-added production) contracted 76.1 percent in the first quarter of 2009. Annual production is projected to drop to 800,000 carats from the 2.1 million mined in 2008. The one bright light in the mining sector is uranium, which grew by 28.5 percent during the first quarter.

¶6. (U) NamDeb, the diamond mining joint venture between the Namibian government and DeBeers, has struggled during the current economic crisis. The company suspended production before the Christmas holidays. It has since drawn down its inventories enough to resume full production by the third week of July.

#### ----- Fishing and Marine Aquaculture -----

¶7. (U) Fishing and fishing-derived manufacturing have contributed between five and seven percent of GDP over recent years. Approximately 90 percent of fish caught are exported, and fishing represents 20 percent of export earnings. The industry directly and indirectly employs over 12,000 Namibians. Nevertheless, the finishing industry has steadily declined since 2003 with a corresponding drop in its direct (non-manufacturing) contribution to GDP. High input (mainly fuel) prices squeezed the industry's already razor thin profit margins in 2008. The fishing industry saw a massive 56.6 percent drop in the fourth quarter of 2008.

Table 4: Fishing Industry Revenues  
And Direct Contribution to GDP

Year	Revenue N\$ Millions	Percentage of GDP
2004	1,564	3.64%
2005	1,435	3.25%
2006	1,308	2.76%
2007	1,060	2.14%
2008	929	1.83%

Source: Central Bureau of Statistics

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¶8. (U) The GRN is credited with reasonably managing the fish stocks it inherited from the apartheid regime, which had been vastly depleted by 1990. The GRN has a policy of encouraging onshore (value-added) production. To support this policy, 70 percent of catches must be brought in &wet8 (not frozen) to local processing facilities. Most in the industry argue that there is now over capacity (in onshore facilities) and under investment in fishing vessels, which drive down profitability.

¶9. (U) Lower fuel prices raised hopes for a more profitable year in 2009. However, according to the CBS, fishing revenues declined 33.5 percent in the first quarter of 2009. Overseas demand is the industry's most critical factor. Citing the potential for continued weakened international demand, the industry has asked the GRN for help via a reduction in fuel levies and an increase in Total Allowable Catches (TACs). TACs are quotas the government places on fish catches to allow fish stocks to recover. The government responded with a slight increase in TACs on certain varieties of fish.

¶10. (U) Namibia enjoys some of the world's richest waters, and it is considered an ideal location for marine aquaculture. In 2008, the fledgling marine aquaculture industry-- oysters primarily-- was devastated by red tide

outbreak that wiped out 90 percent of its stocks. Many Namibian oyster companies terminated their operations. Short-term prospects for a rebound in the marine aquaculture industry are not clear.

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Financial Sector  
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¶11. (U) There are only four major commercial banks operating in Namibia, three of which are subsidiaries of South African banks. Foreign exchange controls and fairly tight banking regulations have shielded Namibia's banks from exposure to the current global economic crisis. As Namibian banks are generally conservative in their lending practices, non-performing loans are not a significant issue. To stimulate domestic demand and spur economic growth the BoN has lowered its key interest rate (the repo rate) several times over the past few months. The current rate stands at seven percent. Commercial Banks, however, enjoy a huge and profitable 450 basis point spread between the BoN's repo rate and the prime rate (11.5 percent). High fees and high interest rates have led the banks to become the target of increasing public discontent. Perhaps as a response, BoN governor Tom Alweendo warned banks that they will need to reduce their prime lending rate to 375 basis points above the repo rate or face unspecified sanctions.

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Tourism  
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¶12. (U) Tourism is an increasingly important sector in Namibia's economy, contributing 14.5 percent of GDP in 2008, and employing 18.2 percent of working Namibians. According to the Namibian Tourism Board, Namibia has experienced steady growth in tourist arrivals over the past few years. Total arrivals increased by 11 percent, while European and other non-African visitors increased by 17 percent from 2006 to ¶2007. (Note: Final figures are not yet available for 2008, but predictions are that there was a slight increase over ¶2007. End Note).

¶13. (U) Jackie Asheeke, CEO of the Federation of Namibian Tourism Associations (FENATA), believes 2009 will see an end to recent high growth rates. Asheeke predicts a 10-15 percent drop in tourism sales, but is quick to admit she is not certain how the industry will fare as it takes time to collect data. The BoN now predicts hotels and restaurants, the BoN's proxy indicator for tourism, will see a 20 percent decline in 2009. Many in the tourism industry also see the recent closure of Air Namibia's direct Windhoek to London route as compounding their problems. Air Namibia, a government-owned enterprise, is the only international air carrier with direct flights to Europe. Other carriers require transits through South Africa.

¶14. (U) Asheeke argues that new entrants (companies four years older and younger) to the tourism market will be hardest hit. New tourism companies, mostly tour operators and lodges, are only in the process of building up their

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business so are less known to customers and typically carry a high debt load. These players may not survive without government assistance or relaxed repayment terms. Most new entrants are emerging black entrepreneurs, and the government may feel pressure not to allow them to fail in large numbers, especially in an election year. Game hunting farms are another segment of the tourism sector feeling the effects of the economic downturn most acutely, according to Asheeke. Americans are the fastest growing client base for game hunting farms. Bookings for professional hunting guides are down about 15 percent, according to some industry insiders.

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¶15. (U) Government infrastructure projects (buildings, roads, and rail) and several large private initiatives support construction as a growth sector. The major private sector construction projects include:

- a high-rise luxury hotel in Windhoek;
- a large super-dairy processing plant;
- a large cement factory in Ohorongo; and
- several new uranium mining projects, most notably Areva's Trekkopje uranium mine and desalination plant.

NamPower, the state-owned energy company also has two major energy projects under construction: the Caprivi Interconnector (a transmission network) that will directly link power plants in Zambia and Zimbabwe to central Namibia; and installation of a fourth turbine at Namibia's only hydro-power plant at Ruacana Falls on the Angolan border.

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Comment  
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¶16. (U) Most private economists argue that the Central Bureau of Statistics' (CBS) numbers should be viewed with some degree of skepticism. Preliminary GDP numbers often vary quite significantly from final figures. The CBS also tends to revise prior year data without providing an explanation for the changes. Nevertheless, economists agree with the overall trends captured by the CBS's numbers. End Comment.  
MATHIEU